

Ontario Housing Outlook 2013-2015

Highlights

- Home sales hit bottom late in 2012 and will rise in 2013
- Home prices will be flat, rising 0.8 per cent in 2013 and 2 per cent in 2014 and 2015
- Real estate listings will drop as potential sellers wait for higher prices
- Mortgage rates will remain low
- Outside Toronto the supply of new homes is not excessive
- Central 1 does not expect a glut of condos in Toronto as developers will slow construction and population growth will absorb new units
- Housing starts will decline 11 per cent in 2013 and hold steady in 2014
- Rental vacancy rates will remain low, although the number of units will grow

Tempered housing activity in Ontario will continue through 2013 and 2014 due to a slower growth economy and federal government efforts to rein in household debt and to mitigate the potential for a housing bubble. Prices, while varying across the province, are forecast to hold steady with little in the way of upside or downside momentum.

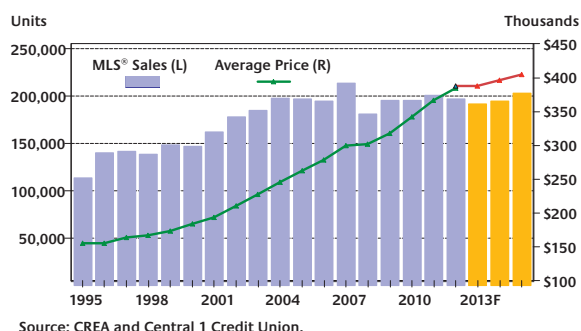
Economic environment stable but uninspiring

Ontario is forecast to post below-average economic growth through the forecast horizon and generate employment gains of only 1.2% in 2013 that will trend higher to a modest 1.8% by 2015.¹ Relatively stronger growth is expected for larger centres, including Kitchener-Waterloo-Barrie, Hamilton-Niagara, Toronto, as well as the Northwest.²

¹ Central 1 Credit Union, Economic Analysis of Ontario: Ontario Economic Forecast 2012-2017. http://www.central1.com/publications/economics/pdf/ea/ea%202012_ont05.pdf

² Central 1 Credit Union, Economic Analysis of Ontario: Ontario Regional Economic Outlooks. http://www.central1.com/publications/economics/pdf/ea/ea%202012_ont06.pdf

Annual Residential MLS® Activity Ontario



Economy and Labour Market Quarterly, Ontario



Excess capacity in labour markets will result in minimal upward pressure in real income. Labour market trends are expected to contribute to weak population growth of under 1 per cent as a net outflow of workers persists to the stronger economies of western Canada. Economic and demographic factors will generate a slow pace of household formation, hampering demand for housing and slowing expansion of the housing stock.

Low interest rates will remain, given uncertainty in the global economy and conditional commitments by the U.S. Federal Reserve to maintain low rates and bond purchases until labour market conditions improve. Central 1 expects a Bank of Canada rate tightening cycle to begin in early-2014. Low policy rates and well-anchored inflationary expectations will keep administered rates stable.

Provincial Summary						
	2010	2011	2012E	2013F	2014F	2015F
MLS® Sales ¹	195,591	200,573	196,875	192,075	194,770	203,000
% change	-0.1	-2.2	-1.8	-2.4	1.4	4.2
MLS® Price (\$) ¹	342,245	366,247	384,960	387,867	396,822	404,766
% change	7.5	7.0	5.1	0.8	2.3	2.0
MLS® New Listings ¹	353,595	349,727	359,100	345,000	348,000	348,400
	10.5	-1.1	2.7	-3.9	0.9	0.1
Housing Starts ²	60,433	67,821	77,200	69,000	70,000	75,000
% change	20.0	12.2	13.8	-10.6	1.4	7.1
Single-Detached ²	28,089	26,884	25,500	27,000	28,500	29,500
% change	24.1	-4.3	-5.1	5.9	5.6	3.5
Multis ²	32,344	40,937	51,700	42,000	41,500	45,500
% change	16.6	26.6	26.3	-18.8	-1.2	9.6
Total Residential Investment (\$2002 millions) ³	30,307	32,098	34,363	34,288	34,610	35,238
% change	8.3	5.9	7.1	-0.2	0.9	1.8
New Dwellings ³	11,779	12,906	14,815	15,100	15,500	15,400
% change	8.4	9.4	14.8	1.9	2.6	-0.6
Renovations ³	15,677	15,918	16,205	16,444	16,664	17,209
% change	5.0	2.4	1.8	1.5	1.3	3.3
Acquisition Costs ³	2,695	3,107	3,174	3,173	3,323	3,454
% change	32.7	10.5	2.2	0.0	4.7	3.9
Rental Vacancy Rate: Apartments (%) ^{2,4}	2.9	2.2	2.5	2.4	2.3	2.5
Change in Average Rent: Apartments (%) ^{2,4}	1.8	2.4	3.2	2.5	2.4	2.2

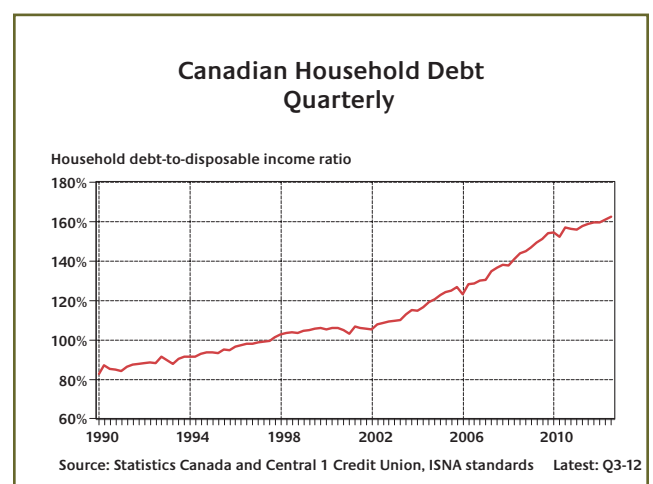
¹ Sources: CREA and Central 1 Credit Union

² Sources: CMHC and Central 1 Credit Union

Posted fixed-term mortgage rates are forecast to edge higher through the forecast horizon, but remain low. As households have become accustomed to low interest rates, borrowing costs will support but will not drive home sales.

Tighter financing conditions

Federal housing policies to slow household borrowing will persist and cut into home sales. The federal government tightened mortgage insurance rules for a second consecutive year in 2012 in response to elevated and rising household debt. The most significant change was a reduction in the maximum amortization period for government-backed mortgage insurance to 25-years from 30-years, which flipped the calendar back to 2005 -- before the most recent era of policy easing. In addition, credit standards for federally regulated financial institutions were also tightened by OSFI effective October 1. Both measures



will constrain household credit and lower homeownership demand.³

³ OSFI, Residential Mortgage Underwriting Practices and Procedures, http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/guidelines/sound/guidelines/b20_e.pdf

All else held constant, shorter amortization periods are similar to a permanent interest rate bump and lower the maximum amount that can be borrowed, which reduces the pool of qualified buyers. The policy implemented in July likely contributed to acceleration in the sales downturn in recent months, as buyers, particularly those with lower-equity, found the edge of affordability that much closer. Financing constraints will contribute to continued weak home sales and factor into fewer move-up purchases.

High homeownership rates signal moderate slowdown in demand

High rates of homeownership suggest a satiation point for Canadian households that will dampen sales activity. Canada's homeownership rate reached 68% in 2006 and likely surpassed 70% in more recent years – a level well above the long-term average of about 63%. Ontario's homeownership has likely risen from more than 71% in 2006. However, don't expect a downward trend to the long-term historical average.

An aging population explains much of the long-term uptrend, with a growing population share of individuals in higher ownership propensity age cohorts. Half of the nine percentage point increase in homeownership rate from 1971 through 2006 was due to a changing age structure.⁴ The remainder reflected an upshift in homeownership rates across age groups due to affordable homeownership costs, increased life expectancies, greater affluence of baby boomers, a stronger social safety net following retirement and for most of the early 2000's, a loosening of housing finance restrictions.⁵

The aging population will continue to keep homeownership rates high in Canada, although Central 1 expects age-specific rates to have peaked as elevated-prices, a tempered economy and tightening of housing finance constraints dampen demand.

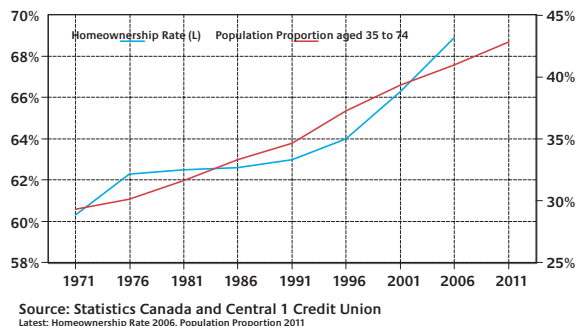
Forecast

Ontario home sales have steadied at an annualized rate of 185,000 since September, following a six-month sales decline that pulled the sales pace down by more than 10%. Fewer sales have led to softer prices, but declines have been insignificant. Market conditions shifted from favouring sellers to being

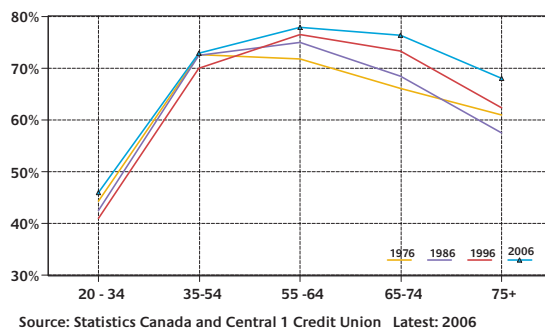
⁴ Hou, Feng. Statistics Canada, Homeownership over the Life Course of Canadians: Evidence from Canadian Censuses of Population. June, 2010. <http://www.statcan.gc.ca/pub/11f0019m/11f0019m2010325-eng.pdf>

⁵ ibid

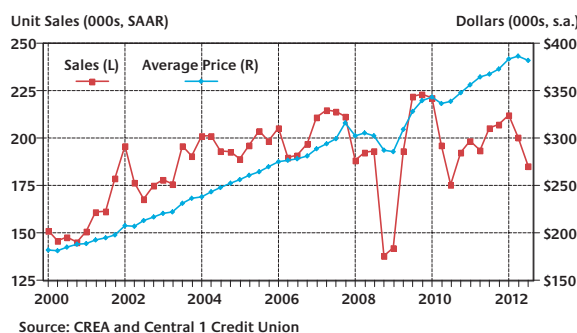
Homeownership Rates and an Aging Population Canada



Homeownership Rate by Household Maintainer Age Canada, Census Years



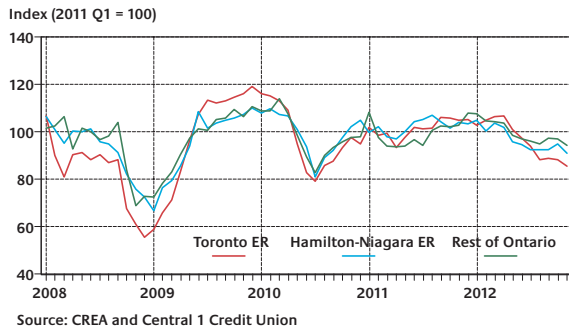
MLS® Residential Activity Ontario, Quarterly



in balance. The average MLS® price was close to \$384,000 in the fourth quarter, down less than 1% from April and still about 3% higher than in the same period of 2011.

The pace of MLS® sales in Ontario is forecast to rise from the 2012 nadir, but reach only 192,100 annual sales this year, marking a decline of about 2.5% as demand-side factors weigh and price levels hold

MLS® Residential Activity Selected Regions, Ontario, Monthly



steady. Larger urban areas are forecast to record relatively larger sales declines in 2013, reflecting the impact of tighter mortgage insurance rules.

A stronger economic and income growth profile in 2015 will generate rising turnover, driving MLS® sales activity of about 203,000 units. While sales are expected to rebound to historically high levels, population-adjusted activity will remain low relative to the past-decade.

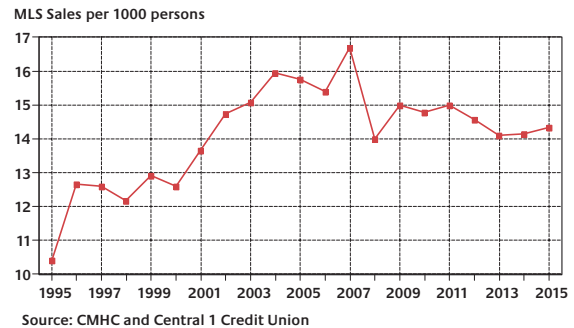
Price levels to hold steady

Declining sales led to moderate price growth for most Ontario markets in 2012. However, price growth was consistent with the sales-to-new listings ratio, which held within a range associated with low-to-moderate price gains. Market conditions in the Northwest and Hamilton-Niagara Peninsula remained conducive to price growth.

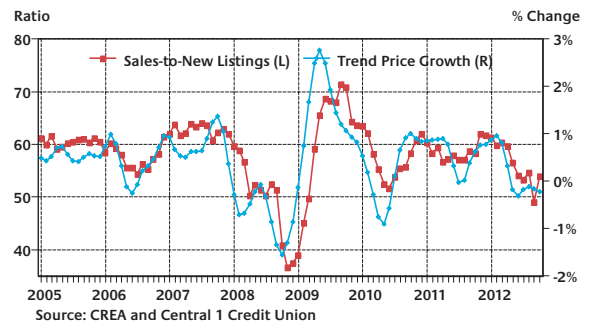
Price weakness in 2012, while modest, was also overstated as a sharper decline in Toronto area sales resulted in a larger share of provincial sales attributed to lower-priced regions near the end of 2012. Alternative price indicators, including the Teranet/National Bank repeat-sales price index available for select major markets in Ontario, and the CREA MLS® HPI for Toronto also rose, although it softened in the second half of 2012.

With a sales bottom in late 2012 and market conditions steady, Central 1 expects flat prices over the next two years. While below 2012's early-year peak, the annual average price in 2013 is forecast to remain steady at \$387,900, up 0.8%, following a 5% gain in 2012. Average price levels are forecast to rise about 2% in both 2014 and 2015. Price growth is forecast to be led by northern Ontario, followed by the larger urban areas, post-2013.

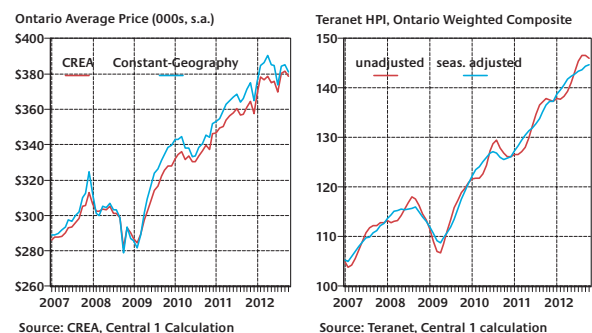
MLS® Sales Per Capita Ontario, Monthly



MLS® Residential Sales-to-New Listings and Price Trend, Ontario, Monthly



House Price Metrics Monthly



Risk of a significant price correction is low

High home prices inevitably fuel discussion of price sustainability and price corrections. Current prices are at historically lofty levels, particularly when examined by common metrics such as price-to-income and rent ratios. However, high prices alone are insufficient to cause a price correction. Low interest rates have kept annualized mortgage-service payments as percentage of income at manageable levels and well below

peaks associated with previous price corrections. While there is a risk that a sharp spike in interest rates will occur, Central 1 expects a gradual increase that will be more than offset by income gains.

A contraction in demand due to tighter mortgage regulations will largely impact the first-time buyer market. Lower purchasing power by entry-level buyers will not be met by a mark-down by sellers. Recent purchasers of entry-level property are still equity-constrained and less able to cut prices to move-up or transition laterally in the market. Transaction costs and price cuts would whittle down existing equity and impede financing availability for future property. Tighter financing will generate mobility constraints for some existing owners, contributing to a supply squeeze in entry-level home listings and fewer move-up buyers.

Central 1 expects prospective buyers to delay purchases as income plays catch-up, or increase down-payments (through gifts, early inheritances, etc.), factoring into lower sales trends. Buyers will be more likely to obtain favourable pricing from the pre-sale market for products under construction.

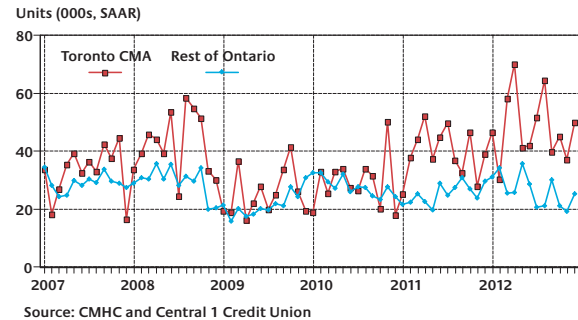
Housing supply in check for most markets

Downward momentum in sales and a stable flow of new listings generated upward pressure on resale inventories and softer market conditions in 2012. The listings flow should slow in 2013 as tempered price growth and general demand keep sellers on the sidelines. As the economy remains stable, most prospective sellers are not under pressure to mark down properties for immediate sale.

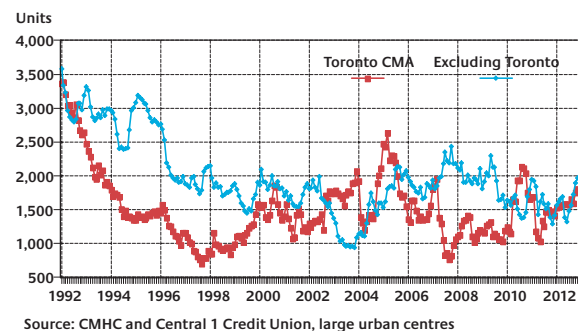
Excess new home supply is a minimal risk for most Ontario markets over the forecast horizon. New home inventory in the province's large markets is consistent with average levels observed over the past decade and lower than average once population gains over the same period are factored in. Meanwhile the number of units under construction is also comparably low, with the exception of Toronto.

In contrast to the weaker pace of housing starts in most markets, construction activity in the Toronto CMA surged in 2012 and contributed to more than 65,000 units being underway at the end of the year. This high level of activity has underpinned fears of a potential housing glut going forward. Available information suggests the number of unsold units in the pre-construction stage and construction stage

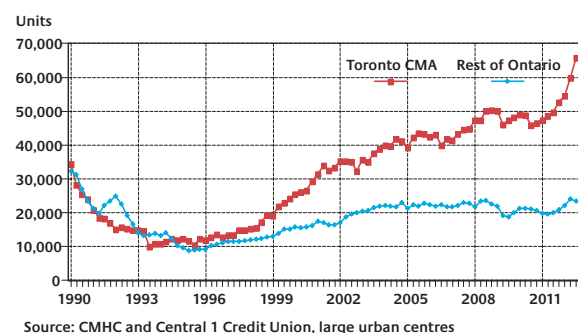
New Housing Starts Monthly



Newly Completed and Unabsorbed Units Ontario, Monthly



New Homes Under Construction Ontario, Quarterly



increased through 2012.⁶ A second concern is that a significant portion of the sold units may be investor-owned. While many will enter the rental pool, which has an exceptionally low vacancy rate, the fear is that a significant proportion may be sold in the resale market upon completion, creating a supply-glut.

⁶

However, rising unsold product under construction is not a surprise given that the base number of units being built has increased. Projects started in 2012 are a number of years away from completion, given the increasing build-out times of modern developments and unsold inventory is expected to be absorbed over time. Projects in the pre-sale stage of development will adjust to the sales environment and delay construction or phase production as necessary. Central 1 does not expect a glut to develop in the region as developers will scale back activity and population growth will absorb oncoming supply.

Housing starts

Tempered home sales and overbuilding concerns will lead to a housing starts decline of about 10.5% to 69,000 units in 2013, following a near 14% gain in 2012. Declines will be led by a multi-year pull-back in Toronto as condominium developers ease off the gas following high levels of building in 2012. Provincial housing starts are forecast to hold steady in 2014 and 2015, as multi-family activity moves towards historical norms.

Multi-family share of provincial housing starts increased from below 40% in the middle of the last decade to above 60% in 2012. While part of this reflects a permanent shift to more multi-family development given high land prices, a greater share of provincial sales in larger urban areas also played a role.

Rental Market

Ontario’s average apartment vacancy rate rose last year to 2.5% from 2.2% in same-month 2011 according to CMHC’s October Rental Market Survey.⁷ While generally low, vacancy rates increased in most large urban centres, with the sharpest increases in Kitchen-Waterloo-Cambridge, Ottawa-Gatineau, Brantford and St. Catharines-Niagara. In Toronto, the vacancy rate edged up, slightly, to a still-microscopic 1.7%.

Higher vacancy rates reflected weak employment growth, particularly in the youth market, and tepid migration, which delayed household formation. Rental supply also edged higher as the recent jump in purpose-built rental unit construction led to an increase in units in the market, while continued growth of investor-owned condominium rentals alleviated pressures.

Supply is poised for further expansion this year as purpose-built rental projects started in 2012 are completed and more investor-owned condominium rentals come to market. However, supply will be met by an increase in rental demand. Weak-to-moderate employment gains should contribute to stronger household formation, while tighter mortgage insurance rules and elevated prices will contribute to a delay in homeownership going forward. The average apartment vacancy rate is forecast to edge slightly lower this year and next before rising in 2015 as more renters buy homes.

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Appendix Tables

Annual MLS® Residential Sales by Economic Region.....	7
Average Annual MLS® Residential Price by Regions.....	8
Ontario Housing Starts.....	9
Forecast Summary.....	10

⁷ CMHC, Rental Market Report, Ontario Highlights, Fall 2012

Annual MLS Residential Sales						
	2010	2011	2012	2013	2014	2015
Province	195,591	200,573	196,875	192,075	194,770	203,000
% change	-0.1	2.5	-1.8	-2.4	1.4	4.2
Ottawa	15,999	15,950	15,900	15,500	15,825	16,400
% change	-2.6	-0.3	-0.3	-2.5	2.1	3.6
Kingston-Pembroke	7,420	7,461	7,700	7,450	7,320	7,800
% change	-4.5	0.6	3.2	-3.2	-1.7	6.6
Muskoka-Kawathas	8,028	8,179	8,400	8,300	8,150	8,600
% change	-0.5	1.9	2.7	-1.2	-1.8	5.5
Toronto	93,575	97,559	94,100	91,000	92,475	96,200
% change	-1.2	4.3	-3.5	-3.3	1.6	4.0
Kitchener-Waterloo-Barrie	19,635	19,748	19,900	19,000	19,100	20,000
% change	-0.3	0.6	0.8	-4.5	0.5	4.7
Hamilton-Niagra Peninsula	21,044	21,701	20,700	20,200	20,500	21,400
% change	3.3	3.1	-4.6	-2.4	1.5	4.4
London	10,066	9,902	9,775	9,600	10,175	10,400
% change	2.4	-1.6	-1.3	-1.8	6.0	2.2
Windsor-Sarnia	7,578	7,738	7,900	7,925	7,950	8,300
% change	3	2.1	2.1	0.3	0.3	4.4
Stratford -Bruce Peninsula	3,781	3,628	3,800	3,700	3,900	4,000
% change	3.2	-4	4.7	-2.6	5.4	2.6
Northeast	6,319	6,631	6,600	7,250	7,200	7,600
% change	7.4	4.9	-0.5	9.8	-0.7	5.6
Northwest	2,146	2,076	2,100	2,150	2,175	2,300
% change	5.1	-3.3	1.2	2.4	1.2	5.7

Sources: CREA and Central 1 Credit Union

Figures may not add due to rounding

Average Annual MLS Residential Price (\$)						
	2010	2011	2012	2013	2014	2015
Province	342,245	366,247	384,960	387,900	396,800	404,750
% change	7.5	7.0	5.1	0.8	2.3	2.0
Ottawa	313,283	328,650	337,000	339,000	348,500	360,000
% change	7.8	4.9	2.5	0.6	2.8	3.3
Kingston-Pembroke	225,016	234,510	241,000	237,000	237,500	240,000
% change	3.7	4.2	2.8	-1.7	0.2	1.1
Muskoka-Kawathas	280,177	286,782	292,000	288,000	292,000	293,000
% change	6	2.4	1.8	-1.4	1.4	0.3
Toronto	436,676	470,550	503,000	509,000	520,000	530,000
% change	9	7.8	6.9	1.2	2.2	1.9
Kitchener-Waterloo-Barrie	281,322	292,637	302,000	305,000	311,000	318,000
% change	7.2	4	3.2	1.0	2.0	2.3
Hamilton-Niagra Peninsula	276,719	295,254	314,000	315,000	320,000	330,000
% change	5.9	6.7	6.3	0.3	1.6	3.1
London	224,340	230,253	237,000	243,900	250,000	253,000
% change	5.6	2.6	2.9	2.9	2.5	1.2
Windsor-Sarnia	159,988	166,639	172,300	177,200	183,700	188,000
% change	2.7	4.2	3.4	2.8	3.7	2.3
Stratford -Bruce Peninsula	218,494	217,614	219,000	232,600	240,000	243,000
% change	7	-0.4	0.6	6.2	3.2	1.2
Northeast	188,960	200,457	210,000	220,000	234,000	240,000
% change	6.3	6.1	4.8	4.8	6.4	2.6
Northwest	144,034	164,393	183,000	191,000	204,000	207,000
% change	4.3	14.1	11.3	4.4	6.8	1.5

Sources: CREA and Central 1 Credit Union

Figures may not add due to rounding

Ontario Starts - Economic Regions*						
	2010	2011	2012	2013	2014	2015
Ottawa	6,692	6,010	6,450	6,250	6,500	6,800
% change	11.1	-10.2	7.3	-3.1	4.0	4.6
Kingston - Pembroke	1,285	1,444	1,350	1,300	1,275	1,300
% change	-1.6	12.4	-6.5	-3.7	-1.9	2.0
Muskoka - Kawarthas	1,079	818	750	725	750	775
% change	35.6	-24.2	-8.3	-3.3	3.4	3.3
Toronto	31,083	41,604	49,000	41,000	40,250	42,500
% change	15.4	33.8	17.8	-16.3	-1.8	5.6
Kitchener - Waterloo - Barrie	5,788	5,503	5,300	5,400	5,700	6,000
% change	48.3	-4.9	-3.7	1.9	5.6	5.3
Hamilton-Niagara Peninsula	5,456	4,305	4,850	5,000	5,200	5,500
% change	64.1	-21.1	12.7	3.1	4.0	5.8
London	2,396	2,061	2,640	2,600	2,650	2,800
% change	-2.3	-14.0	28.1	-1.5	1.9	5.7
Windsor-Sarnia	995	1,132	1,100	1,140	1,180	1,250
% change	15.0	13.8	-2.8	3.6	3.5	5.9
Stratford - Bruce Peninsula	299	310	250	260	280	295
% change	-25.4	3.7	-19.4	4.0	7.7	5.4
Northeast	971	954	870	925	985	1,050
% change	9.7	-1.8	-8.8	6.3	6.5	6.6
Northwest	249	383	395	420	430	440
% change	27.0	53.8	3.1	6.3	2.4	2.3

Sources: CMHC and Central 1 Credit Union

Includes urban areas only, see page XX for details

Forecast Summary: Ontario

	2010	2011	2012E	2013F	2014F	2015F
Real GDP, % chg.	3.0	2.0	2.1	1.9	2.2	2.6
Nominal GDP, % chg.	6.2	4.4	4.2	4.1	4.7	4.5
Employment, % chg.	1.7	1.8	0.8	1.2	1.6	1.8
Unemployment Rate, %	8.7	7.8	7.8	7.5	7.0	6.5
Population, % chg.	1.1	1.1	0.9	0.8	0.8	0.9
Housing Starts, units, 000s	60.6	67.8	76.5	72.0	70.0	68.0
Retail Sales, % chg.	5.2	3.6	2.5	3.7	4.8	5.0
Personal Income, % chg.	4.2	2.9	3.0	2.1	2.7	3.9
Consumer Price Index, % chg.	2.3	3.1	1.5	2.1	2.4	2.4

Statistics Canada, Central 1 Credit Union

Population components: Ontario

	2010	2011	2012	2013F	2014F	2015F
Population, 000s	13,210.7	13,373.0	13,499.3	13,613.0	13,728.0	13,850.1
% change	1.1	1.1	0.9	0.8	0.8	0.9
Net Migration, 000s	98.8	96.3	78.2	66.9	69.5	78.2
Net International, 000s	106.1	98.6	86.2	83.5	89.0	92.2
Net Interprovincial, 000s	-7.3	-2.3	-8.0	-16.6	-19.5	-14.0

Statistics Canada, Central 1 Credit Union

Posted Fixed Term Mortgage Rates

	2010	2011	2012	2013F	2014F	2015F
1-Year	3.49	3.52	3.18	3.10	3.95	4.50
3-Year	4.28	4.29	3.91	3.75	4.35	5.40
5-Year	5.57	5.39	5.27	5.25	5.65	5.90

Bank of Canada, Central 1 Credit Union

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